Analysis of the business environment in Least Developed Countries

Myanmar

March 2023

POLICY REVIEW

IOE

A powerful
and balanced
voice for business

International Organisation of Employers | Organisation Internationale des Employeurs | Organización Internacional de Empleadores

Myanmar

Region
Southeast Asia

Population(2023)
55 347 823

Demographic growth(2020)
0.7%

Average income
8,742.53 USD

Human Development Index
145 out of 191 countries: Myanmar's Human Development Index (HDI) value is 0.6.

Regional economic membership
Association of Southeast Asian Nations (ASEAN)

Economic overview

Myanmar is in South-Eastern Asia, bordering the Andaman Sea and the Bay of Bengal between Bangladesh and Thailand. Its abundant natural resources, labour force, and strategic proximity to Asia's dynamic economies present many growth opportunities. Myanmar is a member of the World Trade Organization (WTO) and the Association of Southeast Asian Nations (ASEAN). Due to decades of domestic military rule and international economic sanctions, Myanmar has limited trade integration with the global market. Since 2010, Myanmar has taken steps to reform its business environment and integrate regionally and globally. The major export is primary goods, including agricultural and forest products, gems, live animals, and emerging gas exports, while petroleum products, iron and steel dominate imports.

The agriculture sector is one of the most important sectors for the country's economy; agricultural goods are the second-largest export commodity. The sector contributes nearly one-third of the country's GDP, accounts for 20 to 30 per cent of total export earnings and employs more than 70 per cent of the workforce. A total of 12.8 million hectares out of 67.6 million hectares of land in the country are cultivated. Rice is the country's primary agricultural product, which accounts for nearly 43 per cent of the total agricultural production value. **Seventy per cent of the country's population lives in rural areas, making the agriculture sector an important engine of rural development.**

Among ASEAN countries, Myanmar has a poor electrification rate, and approximately half its population lacks electricity access. About 70 per cent of the rural population relies on kerosene, candles, batteries, and power generators in their daily lives. The lack of electricity threatens the country's economic growth and prevents the expansion of infrastructure and industrial development.

Challenges faced by the private sector

- **Covid-19 pandemic:** Businesses have been weighed down by restrictive measures to control the pandemic. This slowdown has led to uncertainty around future economic growth and negatively impacted recent progress in poverty reduction.

- **Infrastructure (physical, technology):** Myanmar has gaps in its infrastructure development which affect its economic growth and remains a barrier to business expansion. Only 40 per cent of the road network is paved, and 20 million people, half of the rural population, do not have access to all-weather roads and electricity. According to the Asian Development

Bank, as of 2020, $120 billion will be needed by 2030 to improve infrastructure and add needed roads, rail, bridges, and airports.

- **Weak financial infrastructure and recent banking sector instability:** The public trust in the national banking system has disappeared as businesses desperately try to hedge their finances in a fast-deteriorating economy. Myanmar's depositors continue to remove funds from commercial banks, despite caps on withdrawals and other efforts by the military government to contain outflows. International trade has also been severely affected because banks cannot clear import/export documents. Payments of social welfare schemes and salary payrolls of companies through banks are likewise paralysed. The government's decision to shut down mobile data, public WiFi and fixed wireless internet services to subdue the protests has left people heavily reliant on cash transactions with very limited cash in circulation.

- **Limited access to finance:** Financial institutions find it too high risk to lend to small and medium enterprises (SMEs) given the cost/benefit ratio in terms of time and resources required to process SME loans, as well as the difficulties most SMEs face in consolidating capital and creating business plans to become viable lending candidates. This creates a blockage to growth, where SMEs with the skills to scale up or move into manufacturing and processing are constrained due to their limited access to finance, even if they are willing to assume the risk.

- **Poor transparency of government procedures:** Excessive bureaucracy, redundant and opaque government procedures, cumbersome post-registration compliances, and corruption are hindrances to private sector growth. Access to public services is hampered by cumbersome and time-consuming procedures, often necessitating daylong trips to the capital for administrative procedures. Inefficient bureaucracy is a significant constraint to business in Myanmar, particularly for small and medium-sized enterprises. This creates a fertile environment for the extraction of rents and corruption. Entrepreneurs willing to establish a new business face many hurdles, one being that the cost and time for business registration are relatively high.

- **Weak rule of law and the mechanism for contractual enforcement remains weak:** The judiciary is not independent and lacks experience with commercial litigation and arbitration. The unreliability of Myanmar's court system due to delays in proceedings and the lack of alternative options, such as commercial arbitration for ensuring contracts and property rights are respected, is a major concern for the private sector.

> “Seventy per cent of the country's population lives in rural areas, making the agriculture sector an important engine of rural development.

- **Climate change is another major challenge for the development of Myanmar.** It is one of the world's most disaster-prone countries, exposed to multiple hazards, including floods, cyclones, earthquakes, landslides, and droughts. Along with Puerto Rico and Honduras, Myanmar is one of the three countries most affected by climate change from 1999-2018, according to the 2020 Global Climate Risk Index and 19th out of 191 countries on the INFORM Index for Risk Management.

- **Outdated laws and regulations are hindering the private sector (such as land law and labour-related laws):** In Myanmar, existing Land Acts and Labour Laws, enacted in the 19th century and enforced in the 20th century, are still in use in the 21st century. These laws are inconsistent with globalisation and the current labour market; they are further complicated as different ministries and departments govern them.

- **Large informal and low-productivity economy:** The informal economy is believed to be bigger than the formal economy in Myanmar, composed mainly of micro, small and medium enterprises (MSMEs). **The prevalence of self-employment reflects the economy's large informal sector and the high proportion of low-productivity subsistence jobs.** The median labour productivity of informal firms is about 65 per cent of the level for micro firms in the country. Similarly, total monthly sales (turnover) for informal firms are about 75 per cent of the level for micro firms and less than 5 per cent of the level for medium and large firms[1]. Less than 5 per cent of the informal firms in Myanmar have a bank account for business purposes. Few firms benefit from registration, particularly in smaller cities outside Yangon. Workers in the informal sector are often marginalised from government plans due to inadequate data to plan programmes effectively. They lack social protection and are exploited as the government cannot regulate the sector. One of the biggest challenges for the country remains integrating informal workers into the formal economy.

- **Political instability:** The economy is estimated to have contracted 18.7 per cent in the fiscal year that ended on Sept. 2021, according to the ASEAN+3 Macroeconomic Research Office. Since the military seized power in February 2021, it triggered a freeze on parts of Myanmar's foreign reserves held in the U.S. and suspension of multilateral aid, both key sources of foreign currency supplies. The garment sector has been significantly affected, a major contributor to the country's economy and a key source of export earnings. Several foreign brands have halted their orders, and most operations are at a standstill.

- **Exchange rate instability:** Myanmar is battling a plunging local currency amid an unprecedented dollar shortage, driving up the cost of imports and worsening the economy's struggle with the dual challenges of the pandemic and post-coup financial isolation. The plunging currency is already taking its toll on Myanmar's economy, with some businesses shutting down as they cannot cope with the rising costs of imports and raw materials. The kyat has tumbled about 60 per cent.

- **Capricious changes in regulatory and fiscal regimes directly constrain and introduce uncertainty into firms' operations** and, as such, looms large in rankings of major business environment constraints. There is a lack of a conducive legal framework for new policies as sometimes technical, and implementation requirements have been given no due consideration. Regulators do not adopt a standard process in enforcing regulations to enable consistency and business experience.

- Limitations on using digital and internet technologies hinder private sector companies' access to local and global markets.

> The prevalence of self-employment reflects the economy's large informal sector and the high proportion of low-productivity subsistence jobs.

Private sector policy recommendations

- **Address cross-cutting constraints:** The first imperative is providing affordable access to finance through banking institutions and capital markets over time. At the same time, nonbank financial institutions need to be developed. Efforts to reduce logistics costs are also important, as is improved access to and reduced cost of broadband connectivity.

- To generate employment and revive the economy after the Covid-19 disruption, there should be increased support to the existing business community at the local level through Savings and Credit Cooperatives (SACCOs), such as long-term soft loans should be made available to SACCOs.

[1] Amin, M. Enterprise Surveys Enterprise Note Series Informal Firms in Myanmar. World Bank Group. 2016

- **Establish suitable risk-sharing and mitigation frameworks and long-term financing instruments.** The government should develop initiatives that support small business associations/ incubators and strengthen existing associations to reduce fixed costs associated with training programmes, financing, and other services.

- **Improve dialogue with the private sector:** The government need to increase and strengthen private sector engagement in various avenues such as strategic planning, policy, investment, and execution. The government must also dialogue with the private sector before implementing regulations or entering economic agreements. This is critical in providing access to larger resource and knowledge pools, ensuring efficient allocation of limited resources, and leveraging innovation to ensure quality and successful delivery of government initiatives.

- **Private sector collaboration with the government is needed to develop a robust policy and national human capital development framework.** The government should partner with the private sector to establish an employment roadmap toward a national employment policy. This will help build an informed human development strategy involving targeted education, industrial and social policies, and the establishment of efficient institutions and the necessary legal framework to support it. This will focus on upskilling the current adult workforce, addressing the mismatches between the skill supply and demand of the job market, and preparing the young population to acquire skills that will satisfy future labour market needs. Companies can be involved in this process by instituting training programmes to build up nationally needed skill sets in agribusiness, high-value supply chains, textile, information and communications technology (ICT) and agricultural technology.

- **Improve digital literacy among young people.** This will create opportunities for digital entrepreneurship among young people. The Ministry of Education should also invest in ICT resources and facilities that enable easy learning for students in primary, secondary and tertiary institutions[2].

- The government should engage the private sector in developing initiatives to connect small-scale farmers to lucrative food markets. It should ensure access to market information and provide training to ensure products meet the quantity or quality of crops demanded by the market and that farmers can process and market their products effectively.

- **There is a need for the government to enforce regulations more fairly and equally across all businesses without any exceptions.** This involves improving businesses' tax and regulatory treatment regarding equity, transparency, and predictability, with a particular focus on tax administration. Also necessary is strengthening public-private dialogue on policy and institutional reform.

- Policies that promote private sector activity by reducing business costs through digitally optimised government systems should be launched. This can be achieved by developing a government-wide implementation approach to advancing and scaling up the digitisation of major government processes (such as school fees, taxes, customs, and licenses). Along with optimising and scaling up the e-border management, e-licenses, and public e-procurement systems.

- To address the challenges in the power sector, the government should seek and implement policies to encourage private-sector investment and participation in the following:

    - Construction of medium to large-scale hydro and gas-fired power plants through public-private-partnerships (PPPs)

    - Realisation of small-scale hydropower projects (e.g., to supply a village tract)

[2] Dhital, H. (2018). Opportunities and challenges to use ICT in government school education of Nepal. International Journal of Innovative Research in Computer and Communication Engineering, 6(4), 3215-3220.

- Establishment of solar energy farms and wind power farms

- Provision of efficient and practical solar-power kits to communities currently off-grid as well as solar-power-based solutions (e.g., solar-powered pumps, solar lighting)

• The government should also engage and support, through financing, the private sector in developing mini and off-grid electricity generation, especially in rural areas. The government should also introduce favourable regulatory policies on energy feed-in tariffs to ensure that it is affordable to citizens.

• Given the size and cross-cutting nature of the informal economy, a gradual and phased approach should be taken based on medium and long-term plans. This will entail reducing the cost of formalisation, such as entry costs; reducing bureaucracy in the business start-up and authorisation process; reducing the cost of remaining in the formal market, such as taxes; developing a special tax scheme for MSMEs; and making it easier to access credit.

• The government should develop initiatives backed up with a policy of selecting and supporting the champions in prioritised sectors as examples.

• The government should embark on an aggressive economic drive to secure and increase 'government to government' negotiations for economic partnerships and bilateral agreements to access new markets and improve economic cooperation.

• Develop policies that create a favourable environment for cooperation and partnership in ICT among public and private sectors, civil society, and between all stakeholders at local, national, regional, and international levels. This can be achieved by promoting joint venture initiatives for local entrepreneurs with international private investors to provide public ICT goods and services to catalyse the sector's growth. The government should develop ICT business incubators and promote start-up projects in close coordination with the private sector by creating a supportive ecosystem and accessible financing.

This publication was produced with the financial support of the European Union. Its contents are the sole responsibility of the International Organisation of Employers (IOE) and do not necessarily reflect the views of the European Union.

Co-funded by
the European Union

A powerful
and balanced
voice for business

Avenue Louis-Casaï 71 – CH-1216 Genève
T +41 22 929 00 00 F +41 22 929 00 01
ioe@ioe-emp.com • ioe-emp.org